



Ehlalweni District Municipality
Annual Financial Statements
for the year ended 30 June 2020

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Mayoral committee

Executive Mayor	J Sidell
Speaker	RE Khumalo
Chief Whip	EIT Shabangu
Mayoral committee	MJ Mavuso
	MJ Mnisi
	MR Shongwe
	M Nkuna
	TR Manyisa
	MJ Morema
	S Mashigo-Sekgobela

Councillors

GP Mkhombo
ET Mkhabela
M Chembeni-Sahi
DL Masilela
LC Shakwane
TB Sibuyi
G Mashile
V Malatjie
KC Chuene
NC Khoza
E Mashele
M Mahlangu
LP Mbambo
ML Mkhabela
NV Mathobela
LE Khoza
GN Mogiba
HP Thovhakhgale
TE Masilela
JH Ligthelm
MS Phelephe
LS Mhaule
AS Mthunywa
G Mathebula
ET Mashile
GP Raphiri
ML Mnisi
NP Thabane
DM Khoza
BC Shongwe
SL Mkhathshwa
R Chibi (Appointed 02/09/2019)
TM Mthombo
LT Vuma
PC Luphoko
P Gubayi
MJ Hlophe
JJ Khoza

Ehlanzeni District Municipality

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General Information

	PP Mbowane TM Charles LT Mlombo NL Lukhele JB Mashaba TG Mabuza PCW Minaar MM Mlimi GM Nkambule SP Mathonsi JM Mkhatswha CS Nxumalo MF Nkadimeng Mw Nkhata (Resigned 07/03/2020) GM Moyane (Appointed 20/03/2020) TS Khoza (Appointed 20/03/2020) GCB Anthony
Grading of local authority	5
Municipal demarcation code	DC32
Accounting Officer	FS Siboza
Chief Financial Officer	PO Mokoena
Registered office	8 Van Niekerk Street Mbombela Mpumalanga 1200
Postal address	P O Box 3333 Mbombela Mpumalanga 1200
Bankers	First National Bank Limited
Auditors	Auditor General South Africa
Attorneys	VF Mokoena Attorneys Singwane & Partners Attorneys Matsane Attorneys

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (Act 56 of 2003) and Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 6 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020.

FS Siboza
Accounting Officer

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Acronyms

CFO	Chief Financial Officer
CPI	Consumer Price Index
COVID	Coronavirus
DBSA	Development Bank of Southern Africa
DMC	Disaster Management Centre
EPWP	Expanded Public Works Programme
Ex.	Exclusive
FNB	First National Bank
GIS	Geographical Information System
GRAP	General Recognised Accounting Practice
IDP	Integrated Development Plan
IGRAP	Interpretation of Generally Recognised Accounting Practice
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards
IT	Information Technology
i.t.o	In terms of
LED	Local Economic Development
MFMA	Municipal Finance Management Act, 56 of 2003
MPAC	Municipal Public Accounts Committee
mSCOA	Municipal Standard Chart of Accounts
PAYE	Pay As You Earn
RBIG	Regional Bulk Infrastructure Grant
RRAMS	Rural Roads Assets Management System
SALGA	South African Local Government Association
SARS	South African Revenue Services
SCM	Supply Chain Management
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated
Assets			
Current Assets			
Inventories	5	5 138 915	14 558 468
Investments	7	82 499 272	459 175
Receivables from exchange transactions	4	22 596 699	11 359 305
VAT receivable	6	6 346 965	4 286 834
Cash and cash equivalents	3	6 362 551	89 597 263
		122 944 402	120 261 045
Non-Current Assets			
Property, plant and equipment	8	201 218 151	204 594 341
Intangible assets	9	3 684 570	3 889 579
Investments	7	1 046 703	5 451 504
		205 949 424	213 935 424
Total Assets		328 893 826	334 196 469
Liabilities			
Current Liabilities			
Short-term portion of Long-term liabilities	12	7 857 310	7 013 598
Finance lease obligation	13	511 204	461 602
Payables from exchange transactions	10	58 242 092	51 215 983
Provisions	11	12 260 448	8 491 556
		78 871 054	67 182 739
Non-Current Liabilities			
Long-term liabilities	12	115 483 339	123 341 089
Finance lease obligation	13	182 329	693 533
Provisions	11	26 263 652	29 556 544
		141 929 320	153 591 166
Total Liabilities		220 800 374	220 773 905
Net Assets		108 093 452	113 422 564
Accumulated surplus		108 093 452	113 422 564

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated
Revenue			
Revenue from exchange transactions			
Operational income	33	589 250	657 501
Rental of facilities and equipment	33	291 744	389 209
Interest received	31	10 297 507	8 568 988
Dividends received	33	153 132	143 046
Revenue from non-exchange transactions			
Government grants & subsidies	14	260 456 872	246 014 993
Fines & penalties	33	150 000	869 565
Donations in kind	33	1 738 959	-
Total revenue		273 677 464	256 643 302
Expenditure			
Employee related cost	15	(148 147 404)	(133 611 610)
Remuneration of councillors	16	(16 421 849)	(15 973 839)
Audit fees	22	(2 742 809)	(2 820 971)
Depreciation and amortisation	17	(9 651 674)	(9 716 268)
Provision for bad debts		(701 473)	(512 031)
Finance costs	18	(17 655 503)	(18 137 479)
Repairs and maintenance	19	(4 165 852)	(2 137 305)
Contracted services	20	(1 140 523)	(1 236 018)
Grants and subsidies	21	(29 691 623)	(15 966 905)
Operational expenses	23	(55 507 372)	(54 037 536)
Total expenditure		(285 826 082)	(254 149 962)
Operating (deficit) surplus		(12 148 618)	2 493 340
Loss on disposal of assets		(118 830)	(101 162)
(Loss)/gain on fair value adjustment	7	(1 026 950)	463 638
Actuarial gain	11	8 008 000	2 925 000
(Deficit) surplus for the year		(5 286 398)	5 780 816

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	119 383 299	119 383 299
Adjustments		
Prior period adjustments - note 38	(11 850 806)	(11 850 806)
Balance at 01 July 2018 as restated	107 532 493	107 532 493
Changes in net assets		
Surplus for the year	5 780 816	5 780 816
Prior period adjustments	109 255	109 255
Total changes	5 890 071	5 890 071
Opening balance as previously reported	131 255 504	131 255 504
Adjustments		
Prior period adjustments - note 38	(17 832 941)	(17 832 941)
Balance at 01 July 2019 as restated	113 422 563	113 422 563
Changes in net assets		
Surplus for the year	(5 286 398)	(5 286 398)
Prior period adjustments - note 38	(42 713)	(42 713)
Total changes	(5 329 111)	(5 329 111)
Balance at 30 June 2020	108 093 452	108 093 452

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated
Cash flows from operating activities			
Receipts			
SARS		6 125 144	8 737 211
Grants		260 456 872	246 014 993
Interest received		10 253 357	8 536 437
Dividends received		153 132	143 046
Implementing agency receipts		125 150 324	39 236 132
Other receipts		1 340 484	2 365 336
		403 479 313	305 033 155
Payments			
Employee costs		(169 579 853)	(147 547 215)
Suppliers		(89 928 414)	(89 382 853)
Finance costs		(14 483 445)	(15 083 420)
Implementing agency payments		(120 324 123)	(38 958 053)
		(394 315 835)	(290 971 541)
Net cash flows from operating activities	24	9 163 478	14 061 614
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(5 744 676)	(1 933 624)
Proceeds from sale of property, plant and equipment		298 935	6 700
Purchase of intangible assets	9	(709 844)	(513 882)
Movement in investments		(78 662 246)	189 799
Net cash flows from investing activities		(84 817 831)	(2 251 007)
Cash flows from financing activities			
Repayment of long-term liabilities		(7 014 038)	(6 326 256)
Finance lease payments		(566 321)	(377 548)
Net cash flows from financing activities		(7 580 359)	(6 703 804)
Net increase/(decrease) in cash and cash equivalents		(83 234 712)	5 106 803
Cash and cash equivalents at the beginning of the year		89 597 263	84 490 460
Cash and cash equivalents at the end of the year	3	6 362 551	89 597 263

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Operational income	1 300 000	365 000	1 665 000	589 250	(1 075 750)	Note 37.1
Rental of facilities and equipment	262 451	137 549	400 000	291 744	(108 256)	Note 37.2
Interest received	6 500 000	750 000	7 250 000	10 297 507	3 047 507	Note 37.3
Dividends received	140 000	-	140 000	153 132	13 132	
Total revenue from exchange transactions	8 202 451	1 252 549	9 455 000	11 331 633	1 876 633	

Revenue from non-exchange transactions

Transfer revenue

Government grants & subsidies	260 238 000	-	260 238 000	260 456 872	218 872	
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Transfer revenue

Fines	-	-	-	150 000	150 000	Note 37.4
Donations in kind	-	-	-	1 738 959	1 738 959	Note 37.5

Total revenue from non-exchange transactions	260 238 000	-	260 238 000	262 345 831	2 107 831	
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Total revenue	268 440 451	1 252 549	269 693 000	273 677 464	3 984 464	
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Expenditure

Employee related cost	(141 833 303)	(5 986 870)	(147 820 173)	(148 147 404)	(327 231)	
Remuneration of councillors	(16 969 467)	(33 000)	(17 002 467)	(16 421 849)	580 618	
Audit fees	(3 500 000)	200 000	(3 300 000)	(2 742 809)	557 191	Note 37.6
Depreciation and amortisation	(11 847 425)	2 195 748	(9 651 677)	(9 651 674)	3	
Provision for bad debts	-	-	-	(701 473)	(701 473)	Note 37.7
Finance costs	(15 070 045)	496 200	(14 573 845)	(17 655 503)	(3 081 658)	Note 37.8
Repairs and maintenance	(4 945 000)	(70 027)	(5 015 027)	(4 165 852)	849 175	Note 37.9
Contracted services	(1 500 000)	359 400	(1 140 600)	(1 140 523)	77	
Grants and subsidies	(17 591 000)	(13 087 580)	(30 678 580)	(29 691 623)	986 957	
Operational expenses	(65 205 674)	(2 946 345)	(68 152 019)	(55 507 372)	12 644 647	Note 37.10

Total expenditure	(278 461 914)	(18 872 474)	(297 334 388)	(285 826 082)	11 508 306	
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Operating deficit	(10 021 463)	(17 619 925)	(27 641 388)	(12 148 618)	15 492 770	
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Loss on disposal of assets	-	-	-	(118 830)	(118 830)	Note 37.12
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Gain/(loss) on fair value adjustment	-	-	-	(1 026 950)	(1 026 950)	Note 37.13
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Actuarial gain	-	-	-	8 008 000	8 008 000	Note 37.14
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	-	-	-	6 862 220	6 862 220	
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Surplus/(deficit) for the year	(10 021 463)	(17 619 925)	(27 641 388)	(5 286 398)	22 354 990	
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Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	10 250 000	-	10 250 000	5 138 915	(5 111 085)	Note 37.15
Investments	-	-	-	82 499 272	82 499 272	Note 37.16
Receivables from exchange transactions	296 009	-	296 009	22 596 699	22 300 690	Note 37.17
VAT receivable	3 593 335	-	3 593 335	6 346 965	2 753 630	Note 37.18
Cash and cash equivalents	68 608 382	(5 796 164)	62 812 218	6 362 551	(56 449 667)	Note 37.16
	82 747 726	(5 796 164)	76 951 562	122 944 402	45 992 840	
Non-Current Assets						
Property, plant and equipment	223 077 670	9 460 292	232 537 962	201 218 151	(31 319 811)	Note 37.19
Intangible assets	8 924 782	(999 116)	7 925 666	3 684 570	(4 241 096)	Note 37.19
Investments	4 265 712	-	4 265 712	1 046 703	(3 219 009)	Note 37.13
	236 268 164	8 461 176	244 729 340	205 949 424	(38 779 916)	
Total Assets	319 015 890	2 665 012	321 680 902	328 893 826	7 212 924	
Liabilities						
Current Liabilities						
Short-term portion of long-term liabilities	6 325 860	-	6 325 860	7 857 310	1 531 450	Note 37.20
Finance lease obligation	-	-	-	511 204	511 204	Note 37.21
Payables from exchange transactions	26 365 979	-	26 365 979	58 242 092	31 876 113	Note 37.22
Provisions	35 624 552	-	35 624 552	12 260 448	(23 364 104)	Note 37.14
	68 316 391	-	68 316 391	78 871 054	10 554 663	
Non-Current Liabilities						
Long-term liabilities	117 703 363	-	117 703 363	115 483 339	(2 220 024)	Note 37.20
Finance lease obligation	-	-	-	182 329	182 329	Note 37.21
Provisions	-	-	-	26 263 652	26 263 652	Note 37.14
	117 703 363	-	117 703 363	141 929 320	24 225 957	
Total Liabilities	186 019 754	-	186 019 754	220 800 374	34 780 620	
Net Assets	132 996 136	2 665 012	135 661 148	108 093 452	(27 567 696)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	132 996 136	2 665 012	135 661 148	108 093 452	(27 567 696)	Note 37.23

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Grants	260 238 000	-	260 238 000	260 456 872	218 872	
Interest income	6 500 000	750 000	7 250 000	10 253 357	3 003 357	Note 37.3
Dividends received	140 000	-	140 000	153 132	13 132	
Other receipts	1 562 451	502 549	2 065 000	7 465 628	5 400 628	Note 37.25
Implementing agency receipts	-	-	-	125 150 324	125 150 324	Note 37.24
	268 440 451	1 252 549	269 693 000	403 479 313	133 786 313	

Payments

Supplier and employee costs	(233 953 000)	(5 343 856)	(239 296 856)	(240 875 949)	(1 579 093)	
Finance costs	(15 070 045)	-	(15 070 045)	(14 483 445)	586 600	
Implementing agency payments	-	-	-	(120 324 123)	(120 324 123)	Note 37.24
	(249 023 045)	(5 343 856)	(254 366 901)	(375 683 517)	(121 316 616)	

Net cash flows from operating activities

19 417 406	(4 091 307)	15 326 099	27 795 796	12 469 697	
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Cash flows from investing activities

Purchase of property, plant and equipment	(4 200 000)	(3 250 073)	(7 450 073)	(5 744 676)	1 705 397	Note 37.19
Purchase of intangible assets	(500 000)	(234 000)	(734 000)	(709 844)	24 156	Note 37.19
Proceeds from sale of assets	-	-	-	298 935	298 935	Note 37.12
Investments made	-	-	-	(78 662 246)	(78 662 246)	Note 37.16
Decrease/(Increase) other non-current assets	(12 891 000)	(9 603 507)	(22 494 507)	(18 632 318)	3 862 189	Note 37.15

Net cash flows from investing activities

(17 591 000)	(13 087 580)	(30 678 580)	(103 450 149)	(72 771 569)	
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Cash flows from financing activities

Finance lease payments	-	-	-	(566 321)	(566 321)	Note 37.21
Repayment of long term liabilities	(6 325 860)	-	(6 325 860)	(7 014 038)	(688 178)	Note 37.20

Net cash flows from financing activities

(6 325 860)	-	(6 325 860)	(7 580 359)	(1 254 499)	
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Net increase/(decrease) in cash and cash equivalents

(4 499 454)	(17 178 887)	(21 678 341)	(83 234 712)	(61 556 371)	Note 37.11
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Cash and cash equivalents at the beginning of the year

72 491 000	11 999 000	84 490 000	89 597 263	5 107 263	
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Cash and cash equivalents at the end of the year

67 991 546	(5 179 887)	62 811 659	6 362 551	(56 449 108)	
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Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements meets the requirements of the Municipal Regulations on a Standard Chart of Accounts (mSCOA).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All values have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables /Investments and/or other financial assets

The municipality assesses its trade receivables, investments and other financial assets for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, investments and other financial assets is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

Value in use of cash-generating assets

The municipality reviews and tests the carrying value of cash-generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in use calculations and fair values less costs to sell.

These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors such as exchange rates, inflation and interest.

Value in use of non-cash-generating assets

The municipality reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The recoverable service amounts of non-cash-generating assets have been determined based on the higher of value in use calculations and fair values less costs to sell.

In determining the value in use of assets, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Useful lives

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges. This estimate is based on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

The computation of the amount to be provided for the debtors or receivable impairment will be performed on the basis of the individual or category of customers credit risk profile. A credit risk assessment and profiling will be conducted on the basis of the service and other charges billed during the financial year and prior financial years. The payment history and the previous amounts billed of the customer or debtors during the financial year and also prior financial years since inception of the service agreement shall be taken into consideration in line with the collection rate formula recommended on MFMA Circular 71.

This credit risk assessment determines the ability of the customer to pay for the future amount due as at the reporting date and it is expressed as a percentage of the aggregate amount payment versus the aggregate amount billed by the customer and also into account any bad debts written off.

In case of a debtor being a councillor or employee who is still in the employment of the municipality, no provision for debtors or receivable impairment will be made as the conduct of code in terms of Municipal Systems Act, 32 of 2000 will be applied in collecting the undisputed debt owed by either the councillor or employee in the employment of the municipality. Furthermore, in case of a Councillor or Employee no longer in the employment of the municipality a full provision of the debt owed will be made.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Initial recognition

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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1.2 Property, plant and equipment (continued)

The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement - cost model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Derecognition

Property, plant and equipment is derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of Property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Depreciation and impairment

The residual value, and the useful life and depreciation method of each asset is reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality tests property, plant and equipment with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
Land	Indefinite

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1.2 Property, plant and equipment (continued)

Buildings	50 years
Plant and equipment	5 - 10 years
Furniture and fixtures	5 - 10 years
Motor vehicles	5 - 20 years
Office equipment	3 - 10 years
Air conditioners	15 - 30 years

1.3 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

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1.3 Intangible assets (continued)

Initial recognition

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 - 10 years

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1.4 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate. Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the municipality applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or an equivalent;
- it is probable that the receivable will enter sequestration, liquidation or other financial re-organisation;
- a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied); and
- adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is

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Accounting Policies

1.4 Statutory receivables (continued)

recognised in surplus or deficit.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the municipality discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognises the receivable; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

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Accounting Policies

1.5 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability other than those subsequently measured at fair value initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with the terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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Accounting Policies

1.5 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
 - derecognises the asset; and
 - recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

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1.6 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Rental income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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1.7 Inventories (continued)

When inventories are issued, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Work in progress is recognised at cost and not depreciated. It includes all costs incurred in bringing the ultimate assets to their condition and location as intended by management.

Work in progress will be transferred to property, plant and equipment when the assets are available for use.

Work in progress relating to projects on behalf of other entities will be transferred to the specific entity when the assets are available for use.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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1.8 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.9 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one municipality, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned.

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1.9 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.9 Employee benefits (continued)

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.9 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.10 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Contingencies are disclosed in note 27.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, commission and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Interest and dividends

Revenue arising from the use by others of municipality's assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines & penalties

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are recognised as assets and the related revenue recognised when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.14 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Errors discovered within the reporting period which relates to prior periods are corrected before the annual financial statements are authorised for issue. The principles in GRAP 3 are applied to account for the adjustment to revenue already recognised as a result of the correction of a prior period error.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.20 Value Added Tax

The municipality accounts for VAT on the payment basis.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.21 Accounting by principals and agents

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether the municipality is the principal or the agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is the agent or the principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as the principal or the agent.

Assessing which entity benefits from the transactions with third parties

The municipality is the agent when, in relation to transactions with third parties, all three of the following criteria are present:

- it does not have the power to determine the significant terms and conditions of the transaction;
- it does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit; and
- it is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

The municipality, as the agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.22 Budget information

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 1 July 2019 to 30 June 2020.

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and the reconciliation between the Statement of Financial Performance and the budget for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

Management will provide explanations of variances between actual and budgeted amounts of more than 10% based on material significant judgment assertion, refer to note 37.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.25 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that:

- (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making;
- (b) using fair value in certain instances was inappropriate; and
- (c) some of the existing accounting requirements were seen as too rules based.

As a result, the IASB amended its existing Standards to deal with these issues. The IASB issued the IFRS Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to the IFRS Standard on Financial Instruments: Presentation (IAS 32) and the IFRS Standard on Financial Instruments: Disclosures (IFRS 7). The IPSASB issued revised IPSASs in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- financial guarantee contracts issued;
- loan commitments issued;
- classification of financial assets;
- amortised cost of financial assets;
- impairment of financial assets; and
- disclosures.

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

The impact of this standard is currently being assessed.

Guideline on Accounting for Landfill Sites

The Constitution of the Republic of South Africa, gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology and References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Guideline on the Application of Materiality to Financial Statements

The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP and References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

The impact of this standard is currently being assessed.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An entity should apply judgement based on past experience and current facts and circumstances in the identification of significant accounting policies.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the amendment for the first time in the 2020/2021 annual financial statements.

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 20: Accounting for adjustments to revenue

Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within entities, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The Interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

The expected impact of the interpretation is immaterial.

GRAP 35: Consolidated financial statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The expected impact of the standard is immaterial.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers: definitions, disclosing information about interests in other entities, significant judgements and assumptions, investment entity status, interests in controlled entities, interests in joint arrangements and associates, interests in structured entities that are not consolidated, non-qualitative ownership interests, controlling interests acquired with the intention of disposal, transitional provisions and effective date.

The effective date of the standard is for years beginning after 1 April 2020.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 36: Investments in associates and joint ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The expected impact of the standard is immaterial.

GRAP 37: Joint arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

The effective date of the standard is for years beginning on or after 01 April 2020

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The expected impact of the standard is immaterial.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources.

It furthermore covers: definitions, recognition, measurement, depreciation, impairment, compensation for impairment, transfers, derecognition, disclosure, transitional provisions and effective date.

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2020.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the amendment for the first time in the 2020/2021 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 34: Separate financial statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The expected impact of the standard is immaterial.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An entity should apply judgement based on past experience and current facts and circumstances in determining the amount of revenue to be recognised.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the ASB in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:

- GRAP 105 Transfer of Functions Between Entities Under Common Control;
- GRAP 107 Mergers.

- Consequential amendments arising from GRAP 110 Living and Non-living Resources issued in December 2017.

- Consequential amendments arising from the following Standards of GRAP in May 2018:

- GRAP 34 Separate Financial Statements;
- GRAP 35 Consolidated Financial Statements;
- GRAP 36 Investments in Associates and Joint Ventures;
- GRAP 37 Joint Arrangements;
- GRAP 38 Disclosure of Interests in Other Entities.

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019 as far as the amendments relate to GRAP 105 and 107 and 01 April 2020 as far as the amendments relate to GRAP 110, 34-38.

The municipality expects to adopt the directive for the first time in the 2019/2020 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 1 April 2020

The municipality expects to adopt the standard for the first time in the 2010/2020 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 000	4 000
Bank balances	6 358 551	89 593 263
	6 362 551	89 597 263

The municipality had the following bank accounts

Account number / description

Cash Book and Bank Statement balances

	30 June 2020	30 June 2019	30 June 2018
FNB Nelspruit Cheque account - 62 113 491 419 (Primary bank account)	6 242 944	85 534 827	72 933 909
Standard Bank Nelspruit Cheque account - 63395622	-	4 055 169	11 549 284
Standard Bank Nelspruit Cheque account - 273226703	-	3 267	3 267
FNB Nelspruit Cheque account - 62 852 944 592	115 607	-	-
Total	6 358 551	89 593 263	84 486 460

4. Receivables from exchange transactions

Trade and other receivables	761 131	114 963
Implementing agent receivables (Refer to note 39)	20 369 283	11 244 342
Prepayments	1 461 785	-
Statutory receivables	4 500	-
	22 596 699	11 359 305

Trade and other receivables

2020

	Gross balance	Allowance for debt impairment	Total
Trade and other receivables	1 223 681	(462 550)	761 131

2019

	Gross balance	Allowance for debt impairment	Total
Trade and other receivables	776 751	(661 788)	114 963

Trade and other receivables: Ageing

Current	308 835	88 672
30+ days	28 103	5 417
90+ days	241 915	-
120+ days	141 331	1 977
365+ days	40 947	18 897

Trade and other receivables impaired

Current	-	(14 273)
30+ days	-	(17 000)
60+ days	-	(199 516)
90+ days	(58 851)	(37 698)
365+ days	(403 699)	(393 301)

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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4. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(661 788)	(299 924)
Provision for impairment	(701 473)	(512 031)
Amounts written off as uncollectible	900 711	150 167
	(462 550)	(661 788)

Statutory receivables

2020	Gross balance	Allowance for debt impairment	Total
Municipal health certificates	4 500	-	4 500

Statutory receivables: Ageing

Current	4 500	-
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The maximum exposure to credit risk at the reporting date is the fair value of each class of debtor mentioned above. The municipality does not hold any collateral as security.

The fair value of trade and other receivables approximates their carrying amounts.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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5. Inventories

Work in progress	3 929 146	14 368 199
Consumable stores	303 950	190 269
COVID-19 supplies	905 819	-
	5 138 915	14 558 468

Consumables

Opening balance	190 269	172 105
Additions	887 605	1 172 785
Issued	(765 465)	(1 136 456)
Inventory adjustment	(8 459)	(18 165)
Closing balance	303 950	190 269

Inventories comprise of office stationery.

COVID-19 supplies

Additions	2 648 568	-
Issued	(1 742 749)	-
Closing balance	905 819	-

COVID-19 supplies comprises of hand sanitizers and personal protective equipment.

Reconciliation of work in progress 2020

	Opening balance	Additions	Transfers	Closing balance
Work in progress - projects for local municipalities	14 368 199	16 408 375	(26 847 428)	3 929 146

Reconciliation of work in progress 2019

	Opening balance	Additions	Transfers	Closing balance
Work in progress - projects for local municipalities	10 256 447	18 547 393	(14 435 641)	14 368 199

6. VAT receivable

VAT refundable	6 346 965	4 286 834
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7. Investments

Standard Bank fixed deposit	8 591	-
First National Bank fixed deposit	392 321	-
ABSA Bank fixed deposit	78 720 509	459 175
Momentum investment	1 046 703	972 154
Sanlam investment	3 377 851	4 479 350
	83 545 975	5 910 679

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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7. Investments (continued)

Reconciliation of Momentum investment

Opening balance	972 154	972 154
Fair value adjustment	74 549	-
Closing balance	1 046 703	972 154

Reconciliation of Sanlam Shares

Opening balance	4 479 350	4 015 712
Fair value adjustment	(1 101 499)	463 638
Closing balance	3 377 851	4 479 350

Sanlam listed investments are disclosed at current market value of shares at reporting date (57310 shares at R58,94 per share). The municipality's risk is that the share price of listed investments might devalue significantly during the period under review and result in a substantial loss of the investment. The share price risk is managed by only investing in reputable listed entities with a good track record. The Sanlam listed investment was classified as short term after Council took a decision during the financial year to dispose of the shares.

There is a limited general cession on the ABSA fixed deposit account (Account 20-6059-5378) for R120,000. The current value of this fixed deposit is R494,413.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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8. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	8 103 054	-	8 103 054	8 103 054	-	8 103 054
Buildings	234 923 728	(55 435 390)	179 488 338	234 900 729	(49 870 540)	185 030 189
Furniture and fixtures	12 356 918	(10 084 892)	2 272 026	9 802 190	(7 641 631)	2 160 559
Motor vehicles	6 822 025	(4 895 404)	1 926 621	7 166 054	(4 473 698)	2 692 356
Office equipment	32 470 529	(23 371 162)	9 099 367	28 689 680	(22 868 826)	5 820 854
Plant and equipment	734 193	(405 448)	328 745	2 952 603	(2 165 274)	787 329
Total	295 410 447	(94 192 296)	201 218 151	291 614 310	(87 019 969)	204 594 341

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	8 103 054	-	-	-	-	8 103 054
Buildings	185 030 189	22 999	-	-	(5 564 850)	179 488 338
Furniture and fixtures	2 160 559	363 335	(2 048)	382 659	(632 479)	2 272 026
Motor vehicles	2 692 356	-	(201 146)	-	(564 589)	1 926 621
Office equipment	5 820 854	5 337 542	(151 962)	15 177	(1 922 244)	9 099 367
Plant and equipment	787 329	20 800	(1 826)	(397 836)	(79 722)	328 745
Total	204 594 341	5 744 676	(356 982)	-	(8 763 884)	201 218 151

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation	Total
Land	8 103 054	-	-	-	8 103 054
Buildings	190 595 040	-	-	(5 564 851)	185 030 189
Furniture and fixtures	2 499 467	174 086	(368)	(512 626)	2 160 559
Motor vehicles	3 014 816	366 871	-	(689 331)	2 692 356
Office equipment	4 944 339	2 621 952	(100 814)	(1 644 623)	5 820 854
Plant and equipment	720 957	221 340	(478)	(154 490)	787 329
Total	209 877 673	3 384 249	(101 660)	(8 565 921)	204 594 341

Pledged as security

Carrying value of assets pledged as security for the DBSA loan (Refer to note 12):

Land and buildings	185 357 483	190 890 648
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Assets subject to finance lease (Net carrying amount)

Office equipment	644 730	1 128 267
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Refer to Appendix B for more detail on property, plant and equipment.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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9. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15 664 396	(11 979 826)	3 684 570	15 071 900	(11 182 321)	3 889 579

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	3 889 579	709 844	(27 063)	(887 790)	3 684 570

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	4 533 783	513 882	(7 739)	(1 150 347)	3 889 579

10. Payables from exchange transactions

Trade payables	7 483 022	8 150 129
Retentions	19 282 934	7 887 405
Other creditors	6 182 882	8 787 609
Travel allowance backpay	12 147 479	17 622 692
Implementing agent payables (Refer to note 39)	13 145 775	8 768 148
	58 242 092	51 215 983

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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11. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement	Total
Provision for long service awards	9 627 544	1 522 000	(656 892)	-	10 492 652
Leave provision	5 855 620	2 136 750	(218 514)	-	7 773 856
Post retirement benefits	20 847 000	3 374 000	-	(7 392 000)	16 829 000
Provision for performance bonuses	1 717 936	1 710 656	-	-	3 428 592
	38 048 100	8 743 406	(875 406)	(7 392 000)	38 524 100

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Provision for long service awards	8 567 000	1 559 000	(498 456)	9 627 544
Leave provision	5 168 493	974 136	(287 009)	5 855 620
Post retirement benefits	20 030 000	817 000	-	20 847 000
Provision for performance bonuses	1 656 240	2 000 000	(1 938 304)	1 717 936
	35 421 733	5 350 136	(2 723 769)	38 048 100

Non-current liabilities	26 263 652	29 556 544
Current liabilities	12 260 448	8 491 556
	38 524 100	38 048 100

Leave provision

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave.

Provision for performance bonuses

Performance bonuses are being paid to Municipal Manager, managers and municipal staff after an evaluation of performance by the council.

Post retirement benefits

Opening balance of defined benefits	20 847 000	20 030 000
Interest cost	2 272 000	2 106 000
Current service cost	1 517 000	1 580 000
Expected employer benefit payments	(415 000)	(343 000)
Actuarial gain	(7 392 000)	(2 526 000)
	16 829 000	20 847 000

Net expense recognised in Statement of Financial Performance

Interest cost	2 272 000	2 106 000
Current service cost	1 517 000	1 580 000
Actuarial gain	(7 392 000)	(2 526 000)
	(3 603 000)	1 160 000

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
11. Provisions (continued)		
Long service awards		
Transfers from accumulated surplus	9 627 544	8 567 000
Interest cost	900 000	866 000
Current service cost	1 166 000	1 092 000
Benefits paid	(656 892)	(498 456)
Actuarial gain	(616 000)	(399 000)
Past service cost	72 000	-
	10 492 652	9 627 544

Net expense recognised in Statement of Financial Performance

Interest cost	900 000	866 000
Current service cost	1 166 000	1 092 000
Actuarial gain	(616 000)	(399 000)
Past service cost	72 000	-
	1 522 000	1 559 000

Post retirement benefit

The municipality operates an accredited medical aid scheme. Employees who are not on a fixed contract participate in the post retirement medical assistance plan.

The post retirement assistance plan consisting of KeyHealth Medical Scheme (Keyhealth), LA Health Medical Scheme (LA Health), Bonitas Medical Aid Fund (Bonitas), Hosmed Medical Scheme (Hosmed) and SAMWU National Medical Scheme (SAMWUMED). The members are entitled to a 60% retirement subsidy of the total contribution subject to a maximum of R 4,773 per month as from 1 July 2020.

These funds are subject to actuarial valuations. The last valuation was performed by an independent actuarial firm, Alexander Forbes, on 30 June 2020.

Long service awards

The municipality rewards its employees who are in service for an unbroken period of 5 years and longer. Employees are entitled/awarded leave days equivalent to number of years served eg. 10 years of service, one gets 10 days of leave, which can either be taken as leave or to be paid out in cash.

The awards were subjected to actuarial valuation by an independent actuarial firm, Alexander Forbes, on 30 June 2020.

Provision for performance bonuses

Performance bonuses are awarded to permanent employees and fixed term contract employees subject to certain conditions being met.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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11. Provisions (continued)

Calculation of actuarial gains & losses

The following key assumptions were used at reporting date:

Post retirement benefits

Discount rate	15.10%	11.00%
CPI Inflation	9.30%	7.00%
Rand Cap Inflation	8.00%	8.00%
Health Care Cost Inflation	11.30%	9.00%
Salary Inflation	10.55%	8.00%
Expected retirement age	65 years	65 years
Continuation members	8	8
In-service members	148	147

Long service awards

Discount rate	9.40%	8.60%
Inflation rate	5.00%	5.00%
Salary Inflation	6.25%	6.00%
Members	166	167

12. Long term liabilities

At amortised cost

DBSA loan	123 340 649	130 354 687
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The municipality has one loan at DBSA during the period. Details of the loan are as follows:

DBSA - 61000886

Maturity date: 31/12/2029

Interest calculated at
11.12%

Non-current liabilities

At amortised cost	115 483 339	123 341 089
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Current liabilities

At amortised cost	7 857 310	7 013 598
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Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
13. Finance lease obligation		
Minimum lease payments due		
- within one year	566 322	566 322
- in second to fifth year inclusive	188 774	755 096
	755 096	1 321 418
less: future finance charges	(61 563)	(166 283)
Present value of minimum lease payments	693 533	1 155 135
Present value of minimum lease payments due		
- within one year	511 204	461 602
- in second to fifth year inclusive	182 329	693 533
	693 533	1 155 135
Non-current liabilities	182 329	693 533
Current liabilities	511 204	461 602
	693 533	1 155 135

The finance lease is for copiers with a lease term of three years and the average effective borrowing rate is 10.25%.

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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14. Government grants and subsidies

Government grant - Equitable Share	253 324 000	239 132 000
Government grant - Finance Management Grant	1 250 000	1 250 000
Government grant - Sector Education and Training Authority	218 872	213 993
Government grant - Department Roads & Transport	2 491 000	2 352 000
Government grant - Expanded Public Works Program Incentive	3 173 000	3 067 000
	260 456 872	246 014 993

National Treasury Finance Management Grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

The purpose of this grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

National Department of Roads & Transport

Current-year receipts	2 491 000	2 352 000
Conditions met - transferred to revenue	(2 491 000)	(2 352 000)
	-	-

The purpose of this grant is to assist rural district municipalities to set up rural RAMS, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa.

Sector Education and Training Authority

Current-year receipts	218 872	213 993
Conditions met - transferred to revenue	(218 872)	(213 993)
	-	-

The purpose of the funds is for skills and capacity building within the municipality.

Expanded Public Works Program Incentive

Balance unspent at beginning of year	-	-
Current-year receipts	3 173 000	3 067 000
Conditions met - transferred to revenue	(3 173 000)	(3 067 000)
	-	-

Ehlanzeni District Municipality

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14. Government grants and subsidies (continued)

The purpose of this grant is to incentivise provincial departments to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines:

- road maintenance and maintenance of buildings
- low traffic volume roads and rural roads
- other economic and social infrastructure
- tourism and cultural industries
- sustainable land based livelihoods
- waste management
- parks and beautification
- social services programs
- health services programs
- community safety programs
- basic services infrastructure

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Ehlanzeni District Municipality

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Figures in Rand	2020	2019
15. Employee related costs		
Basic salaries	90 230 498	84 149 284
Annual bonus	5 857 247	5 241 874
Medical aid - company contributions	6 446 921	5 863 279
UIF	403 401	378 407
SDL	913 040	1 017 395
Leave pay provision contribution	2 136 750	974 136
Post-employment benefits - pension - defined contribution plan	15 394 322	14 198 477
Travel allowances	21 756 606	20 303 560
Overtime payments	388 919	311 112
Acting allowances	335 805	531 987
Housing benefits and allowances	719 326	623 583
Bargaining council	20 066	18 516
COVID-19 danger allowances	3 544 503	-
	148 147 404	133 611 610
Remuneration of Municipal Manager - FS Sibozo		
Annual Remuneration	1 203 279	1 181 165
Car Allowance	336 000	336 000
Contributions to UIF, Medical and Pension Funds	213 720	288 358
	1 752 999	1 805 523
Remuneration of Chief Financial Officer - W Khumalo (Resigned 31 August 2018)		
Annual Remuneration	-	202 938
Car Allowance	-	56 000
Contributions to UIF, Medical and Pension Funds	-	49 448
Acting allowance	-	37 698
	-	346 084
Remuneration of Acting Chief Financial Officer - GN Dube (Acting till 13 March 2019)		
Annual Remuneration	-	542 820
Car Allowance	-	124 227
Contributions to UIF, Medical and Pension Funds	-	111 188
Acting allowance	-	111 732
	-	889 967
Remuneration of Chief Financial Officer - PO Mokoena (Appointed 15 April 2019)		
Annual Remuneration	868 253	180 633
Car Allowance	300 000	63 636
Contributions to UIF, Medical and Pension Funds	73 016	11 859
	1 241 269	256 128
General Manager: Corporate services - RS Makwakwa		
Annual Remuneration	797 537	789 011
Car Allowance	240 000	240 000
Contributions to UIF, Medical and Pension Funds	203 731	182 548

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
15. Employee related costs (continued)		
Other allowances	98 251	-
	1 339 519	1 211 559
General Manager: LED & Tourism - NP Mahlalela		
Annual Remuneration	885 816	854 066
Car Allowance	336 000	336 000
Performance Bonuses	-	104 201
Contributions to UIF, Medical and Pension Funds	227 312	225 027
	1 449 128	1 519 294

Ehlanzeni District Municipality

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15. Employee related costs (continued)

Acting General Manager: Technical services - PG Du Toit (Acting from 1 June 2018 to 31 December 2018)

Annual Remuneration	-	329 329
Car Allowance	-	82 818
Contributions to UIF, Medical and Pension Funds	-	96 774
Acting allowance	-	39 074
	-	547 995

General Manager: Technical services - ND Malokela (Appointed 1 March 2019)

Annual Remuneration	655 701	212 874
Car Allowance	240 000	80 000
Contributions to UIF, Medical and Pension Funds	159 379	49 240
	1 055 080	342 114

General Manager: Municipal Health & Environment- ST Shabangu

Annual Remuneration	821 434	804 300
Car Allowance	240 000	240 000
Performance Bonuses	-	73 768
Contributions to UIF, Medical and Pension Funds	179 835	166 583
	1 241 269	1 284 651

General Manager: Public Safety & Disaster Management - HTM Nkosi

Annual Remuneration	743 950	761 845
Car Allowance	300 000	260 000
Contributions to UIF, Medical and Pension Funds	197 319	189 730
Acting allowance	20 907	-
Other allowances	81 293	-
	1 343 469	1 211 575

Salaries, allowances and benefits of Councillors as disclosed in note 16 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance and Traditional Affairs determination in accordance with this Act.

Remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

16. Remuneration of councillors

Executive Mayor	1 125 045	1 047 528
Speaker	878 397	846 182
Councillors	8 103 780	7 889 977
Councillors' pension contribution	919 556	871 624
Chief Whip	826 047	795 845
Councillors other allowances	4 569 024	4 522 683
	16 421 849	15 973 839

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

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Figures in Rand	2020	2019
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16. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor and Speaker have the use of a council owned vehicles for official duties.

The Executive Mayor has a full-time bodyguard, a full-time driver and a full-time security guard at her residence, at the cost of the council. The Speaker has a full-time driver at the cost of the council.

Executive Mayor - Cllr J Sidell

Annual Remuneration	716 857	657 051
Car Allowance	261 749	251 682
Contributions to UIF, Medical and Pension Funds	146 439	138 795
	1 125 045	1 047 528

Speaker - Cllr RE Khumalo

Annual Remuneration	543 043	525 360
Car Allowance	209 399	201 345
Contributions to UIF, Medical and Pension Funds	125 955	119 477
	878 397	846 182

Chief Whip - Cllr ET Shabangu

Annual Remuneration	567 117	548 067
Car Allowance	196 312	188 761
Contributions to UIF, Medical and Pension Funds	62 618	59 017
	826 047	795 845

MMC Environmental Health - Cllr MR Shongwe

Annual Remuneration	552 917	528 581
Car Allowance	196 312	188 761
Contributions to UIF, Medical and Pension Funds	76 818	78 503
Acting allowance	4 027	3 020
	830 074	798 865

Ehlanzeni District Municipality

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16. Remuneration of councillors (continued)		
MMC LED & Tourism - Cllr MJ Morema		
Annual Remuneration	517 903	501 847
Car Allowance	196 312	188 761
Contributions to UIF, Medical and Pension Funds	111 832	105 237
	826 047	795 845
MMC Technical - Cllr M Nkuna		
Annual Remuneration	558 178	537 798
Car Allowance	190 262	185 131
Contributions to UIF, Medical and Pension Funds	77 607	72 916
	826 047	795 845
MMC Social Services - Cllr MC Masilela (Resigned 20 May 2019)		
Annual Remuneration	-	579 774
Car Allowance	-	35 502
Contributions to UIF, Medical and Pension Funds	-	90 376
	-	705 652
MMC Social Services - Cllr S Mashigo-Sekgobela (Appointed 1 June 2019)		
Annual Remuneration	527 113	41 146
Car Allowance	196 312	15 730
Contributions to UIF, Medical and Pension Funds	102 622	9 444
	826 047	66 320
MMC Corporate Services - Cllr MJ Mavuso		
Annual Remuneration	605 735	583 084
Car Allowance	196 312	188 761
Contributions to UIF, Medical and Pension Funds	24 000	24 000
Acting allowance	28 189	6 776
	854 236	802 621
MMC Finance - Cllr MJ Mnisi		
Annual Remuneration	551 980	532 929
Car Allowance	196 312	188 761
Contributions to UIF, Medical and Pension Funds	77 755	74 155
Acting allowance	5 034	-
	831 081	795 845

Ehlanzeni District Municipality

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Figures in Rand	2020	2019
16. Remuneration of councillors (continued)		
MMC Disaster Management - Cllr TR Manyisa		
Annual Remuneration	521 640	502 797
Car Allowance	190 262	185 131
Contributions to UIF, Medical and Pension Funds	114 145	107 917
	826 047	795 845
17. Depreciation and amortisation		
Property, plant and equipment	8 763 884	8 565 921
Intangible assets	887 790	1 150 347
	9 651 674	9 716 268
18. Finance costs		
Interest - other	3 199 354	3 016 207
Interest - finance leases	104 719	82 059
Interest - Development Bank of Southern Africa	14 351 430	15 039 213
	17 655 503	18 137 479
19. Repairs and maintenance		
Buildings	3 596 663	1 475 320
Vehicles	539 662	557 210
Furniture and fittings	28 092	99 037
Plant and equipment	1 435	5 738
	4 165 852	2 137 305
20. Contracted services		
Security services	1 140 523	1 236 018
21. Grants and subsidies		
Nkomazi Local Municipality	9 466 173	465 000
Department of Roads & Transport	2 057 782	1 942 957
EDM Own Funding	-	1 993 148
Mbombela Local Municipality	10 629 821	4 212 239
COVID-19 relief	2 344 195	-
Thaba Chweu Local Municipality	4 693 652	5 949 728
Bushbuckridge Local Municipality	500 000	1 403 833
	29 691 623	15 966 905
22. Auditors' remuneration		
Audit fees	2 742 809	2 820 971

Ehlanzeni District Municipality

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Figures in Rand	2020	2019
23. Operational expenses		
Audit Committee	326 036	336 575
Bank charges	56 915	66 771
Bursaries	716 941	672 868
Clean up campaigns	-	144 240
Community outreach	4 630 789	5 907 344
Conferences and seminars	125 443	156 076
Consulting and professional fees	8 662 597	3 966 237
Corporate GIS shared services	1 000	-
Disaster management cost - centre	983 964	783 498
Disaster management operational cost	1 640 000	1 640 000
Electricity, water and rates	7 263 766	7 507 509
Entertainment	655 901	1 085 999
Fuel and oil	685 718	860 692
GIS operational costs	54 881	117 654
COVID-19 Personal protective equipment and supplies	5 702 477	-
IDP review	81 275	544 483
IT expenses	5 184 037	5 212 300
Insurance	440 879	480 977
Lease rentals	-	137 800
Legal fees	1 576 609	680 653
Marketing	1 101 434	1 555 639
Municipal health operational cost	564 658	1 099 605
Other expenses	984 230	2 049 991
Other programs and campaigns	1 898 294	3 058 006
Postage and courier	3 955	8 177
Printing and stationery	1 366 649	2 220 570
Project maintenance costs	11 362	48 515
Protective clothing	190 262	105 898
Telephone and fax	1 515 072	1 605 120
Tourism development	1 849 160	1 863 013
Training	407 482	1 148 087
Travelling and subsistence	6 825 586	8 973 239
	55 507 372	54 037 536
24. Cash generated from operations		
(Deficit) surplus	(5 286 398)	5 780 816
Adjustments for:		
Depreciation and amortisation	9 651 674	9 716 268
Actuarial (gain)	(8 008 000)	(2 925 000)
(Gain) on fair value adjustments	1 026 950	(463 638)
Loss on disposal of assets	118 830	101 162
Finance costs - Finance leases	104 719	82 059
Provision for bad debts	701 473	512 031
Movements in provisions	8 484 000	5 551 367
Other non-cash items	(76 433)	78 249
Changes in working capital:		
Inventories	9 419 553	(4 129 916)
Receivables from exchange transactions	(11 938 867)	(11 575 328)
Payables from exchange transactions	7 026 108	12 042 568
VAT	(2 060 131)	(709 024)
	9 163 478	14 061 614

Ehlanzeni District Municipality

Annual Financial Statements for the year ended 30 June 2020

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Figures in Rand	2020	2019
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25. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	22 596 699	-	22 596 699
Cash and cash equivalents	-	6 362 551	-	6 362 551
Investments	4 424 554	-	79 121 421	83 545 975
	4 424 554	28 959 250	79 121 421	112 505 225

Financial liabilities

	At amortised cost	Total
Long term liabilities	123 340 649	123 340 649
Trade and other payables from exchange transactions	58 242 092	58 242 092
Finance lease liability	693 533	693 533
	182 276 274	182 276 274

2019

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	11 359 305	-	11 359 305
Cash and cash equivalents	-	89 597 263	-	89 597 263
Investments	5 451 504	-	459 175	5 910 679
	5 451 504	100 956 568	459 175	106 867 247

Financial liabilities

	At amortised cost	Total
Long term liabilities	130 354 687	130 354 687
Trade and other payables from exchange transactions	51 215 983	51 215 983
Finance lease liability	1 155 135	1 155 135
	182 725 805	182 725 805

26. Commitments

Authorised expenditure

Already contracted for but not provided for

• Property, plant and equipment	5 117 173	12 201 424
• Building repairs and maintenance	479 456	2 354 046
	5 596 629	14 555 470

Ehlanzeni District Municipality

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27. Contingencies

Contingent liabilities

1. Dumata Trading CC

This matter was inherited from the disestablished Bohlabela District Municipality and the plaintiff Dumata Trading CC is suing the municipality about R360 547 at the North Gauteng High Court for services rendered to Bohlabela. Pleadings have closed and plaintiff has to set the matter down for trial. Trial date has not been allocated yet for the hearing of this matter. The Attorneys of record advised that the Plaintiff have not acted further on the matter since the application of the trial date delivered on 3 February 2016.

2. Joint Municipal Pension Fund

The Joint Municipal Pension Fund is suing the municipality for contributions on pension fund of a former employee of the Municipality and was their member but left in 2007 after he volunteered to retire following the transfer of the ambulance services from the municipality to the Department of Health.

The amount claimed in this matter is estimated at R765 779.32. Judgement has been issued in favour of EDM. The plaintiff immediately filed an application for leave to appeal and it was set down and argued on 29 June 2020 virtually when the judge granted the leave to appeal.

3. Antoinette Kolesky and other

The Plaintiffs are the registered owners of the Remaining Extent of Portion 9 of the Farm Draaikraal 48 ("herein after referred to as "the Property"), situated at Thaba Chweu Local Municipality within the jurisdiction of Ehlanzeni District Municipality.

The Plaintiffs instituted the action proceedings, following developments that were executed within the property without their consent, and further establishing a Human Settlement for the unlawful occupiers to move in to the property.

On or about the 14th February 2018, the Plaintiffs' Attorneys of Record, addressed a letter to the Thaba Chweu Local Municipality, providing several options to resolve the illegal occupation, including but not limited to, that the Thaba Chweu acquire or expropriate the Plaintiffs' Property at a market value, that the unlawful settlement occurred on the Plaintiffs' Property be ignored when determining the market value of the Property for purposes of any expropriation or acquisition of the Property by the defendants.

The matter could not be resolved at that time, and Thaba Chweu approached the Department of Human Settlements in Mpumalanga requesting assistance with buying the Property from the Plaintiff's. The Defendants, after being served with Summons, held a meeting on the 24th of May 2019 to discuss a way forward in this matter, and a unanimous decision was taken not to proceed defending the matter.

The Parties intends to settle the matter and a draft deed of settlement has been prepared by the State Attorney on behalf of the defendants and sent to plaintiffs for consideration of the terms entailed. DHS appointed a Property Valuer to do evaluations.

4. D Sihlangu

This is an unfair discrimination dispute referred to the Labour Court by the applicant in terms Rule 6 of the Labour Court Rules, against EDM. Applicant wants his post to be adjusted from post level 8 to post level 5 to be in line with other Coordinators.

Matter is defended by the municipality and pre-trial conference between the parties conducted in February 2020.

Ehlanzeni District Municipality

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Figures in Rand	2020	2019
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28. Unauthorised, Irregular, Fruitless and wasteful expenditure

28.1 Unauthorised expenditure

Opening balance	186 345	-
Current year	-	186 345
	186 345	186 345

Remedial actions

The outcome of investigation and recommendations by MPAC relating this unauthorised expenditure of R186 345 was approved for implementation as per Council Resolution A21 of 26 September 2019.

28.2 Irregular expenditure

Opening balance	3 684 623	1 529 233
Add: Irregular Expenditure - current year	1 401 372	2 155 390
Less: Amounts written off	(5 025 245)	-
	60 750	3 684 623

Incidents

The irregular expenditure of R1 401 372 was incurred during the year due to non-compliance with Regulation 32 of the Municipal Supply Chain Management Regulations on appointment of a service provider in 2018/19 financial year.

Remedial actions

- The irregular expenditure incurred during the year was reported to Council and referred to MPAC, and the Disciplinary Board for investigations as per Council Resolutions A44 of 29 January 2020 and A69 of 18 June 2020, including the irregular expenditure incurred in the previous financial years.
- The total amount of R5 025 245 was written off as per Council Resolutions A19, A20 and A22 of 26 September 2019, and A141 of 29 October 2020 following the investigations and recommendations by MPAC.
- The outcome of the investigations and recommendations by the Disciplinary Board on the potential financial misconducts relating to these irregular expenditures were approved as per Council Resolution A141 of 29 October 2020.

28.3 Fruitless and wasteful expenditure

Opening balance	125 147	-
Current year	51 625	125 147
Amounts recovered	(125 076)	-
Written off by Council	(29 296)	-
	22 400	125 147

Incidents

The fruitless and wasteful expenditure of R51 626 was incurred during the year is interest and penalties charged by SARS as a result of annual assessment discrepancies relating to the employees tax deductions amounting to R27 273, interest charged by service providers for late payments amounting to R82 and erroneously salary payment to a deceased councillor amounting to R24 271.

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28. Unauthorised, Irregular, Fruitless and wasteful expenditure (continued)

Remedial actions

- (a) The fruitless and wasteful expenditure incurred of R51 626 was reported to Council and referred to MPAC as per Council Resolutions A69 of 18 June 2020 and A81 of 30 July 2020, and the Disciplinary Board for investigation for any potential financial misconducts.
- (b) The amount of R27 296 was approved to be written off as per Council Resolution A141 of 29 October 2020 following the investigation and recommendation of MPAC.
- (c) The Disciplinary Board investigated the potential financial misconduct and the recommendations of the Board were adopted as per Council Resolution A142 of 29 October 2020
- (d) The total amount to be recovered of R125 076 relates to Council Resolutions A23 of 26 September 2019 for an amount of R80 949 and A142 of 29 October 2020 for an amount of R44 198.

29. Risk management

Financial risk management

Exposure to interest rate, liquidity and credit risks arises in the normal course of the Municipality's operations. The municipality has established a risk management committee, which is responsible for developing and monitoring the municipality's risk management policies. The risk management policies are established to identify and analyse the risks faced by the municipality, to set up risk limits and controls and to monitor risks and adherence to limits. Risk management policies are to be reviewed regularly to reflect changes in the municipality's activities.

Liquidity risk

Ehlanzeni District Municipality manages its liquidity risks by effectively managing its working capital, capital expenditure and external borrowings. Standby credit facilities in the form of an R20,000,000 bank overdraft facility has been negotiated with the main banker and provisionally approved. The overdraft facility will cater for any unexpected temporary shortfall in operating funds.

At 30 June 2020	Less than 1 year	Between 1 and 5 years
Long term borrowings	7 857 310	115 483 339
Payables from exchange transactions	58 242 092	-
Finance lease liability	511 204	182 329

At 30 June 2019	Less than 1 year	Between 1 and 5 years
Long term borrowings	7 013 598	123 341 089
Payables from exchange transactions	51 215 983	-
Finance lease liability	461 602	693 533

Credit risk

Ehlanzeni District Municipality manages its credit risk in its borrowing and investing activities by dealing with the A+ rated financial institutions and by spreading its exposure over a wide range of financial institutions in accordance with the approved cash and investment policy as was approved by council.

Management evaluated credit risk relating to receivables from exchange transactions on an ongoing basis. If receivables from exchange transactions are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivables, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Cash and cash equivalents	6 362 551	89 597 263
Non-current investments	1 046 703	5 451 504
Current investments	82 499 272	459 175
Receivables from exchange transactions	22 596 699	11 359 305

Ehlanzeni District Municipality

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Figures in Rand	2020	2019
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29. Risk management (continued)

Interest rate risk

Ehlanzeni District Municipality is not exposed to any interest rate risks on its financial liabilities. As at the end of the financial year, 30 June 2019, Ehlanzeni District Municipality had only one fixed interest bearing loan with the Development Bank of Southern Africa (DBSA) as reflected in APPENDIX A. It should be noted that the interest in this loan is fixed until maturity. Similarly, with financial assets, Ehlanzeni District Municipality invests its surplus funds not immediately required in a fixed interest rate deposit with the A+ rated banks for fixed terms not exceeding one year.

30. Related parties

Relationships

Members of key management & councillors See note 15 and 16.

31. Interest received

External investment	10 297 507	8 568 988
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32. Change in estimate

Property, plant and equipment and Intangible assets

The estimated useful life of assets in certain classes of Property, Plant and Equipment and Intangible Assets were assessed during the current financial year. In the current financial year management have extended their estimated useful lives. The effect of this revision has decreased the depreciation and amortisation charges for the current period and increased for future periods by R 1 140 954.

The impact on Intangible assets due to the extension of their useful lives is R 473 477. Refer to note 10

The impact on Property, plant and equipment due to the extension of their useful lives is R 667 477. Refer to note 8.

33. Revenue

Operational income	589 250	657 501
Rental of facilities and equipment	291 744	389 209
Interest received	10 297 507	8 568 988
Dividends received	153 132	143 046
Government grants & subsidies	260 456 872	246 014 993
Fines & penalties	150 000	869 565
Donations in kind	1 738 959	-
	273 677 464	256 643 302

The amount included in revenue arising from exchanges of goods or services are as follows:

Operational income	589 250	657 501
Rental of facilities and equipment	291 744	389 209
Interest received	10 297 507	8 568 988
Dividends received	153 132	143 046
	11 331 633	9 758 744

Ehlanzeni District Municipality

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33. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	260 456 872	246 014 993
Fines & penalties	150 000	869 565
Donations in kind	1 738 959	-
	262 345 831	246 884 558

34. Events after the reporting date

Due to the COVID-19 pandemic, the municipality has received a request on 25 September 2020 from the service provider contracted by the municipality for the renting and operating the municipal canteen and conference facilities. The service provider is requesting for a payment holiday covering part of the period on which was declared for the national disaster, from 01 April 2020 to 30 September 2020. The request for the payment holiday poses a potential risk on the collectability of the receivable disclosed on note 4 as at 30 June 2020.

35. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Membership fee SALGA	1 484 383	1 322 508
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PAYE, UIF and SDL

Amount paid - current year	32 471 915	25 320 263
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Pension and Medical Aid Deductions

Amount paid - current year	35 406 688	32 917 925
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VAT

VAT received - current year	6 125 144	8 737 211
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36. Deviations i.t.o section 36 of Supply Chain Management Policy

Deviations for the 2019/2020 Financial Year ending 30 June 2020

Supplier	Description of goods/work/service	Amount Ex. VAT	Deviation reasons
Adapt i.t. (Pty) Ltd	CASEWARE software annual license renewal	66,852.00	Impractical
Aqualytic laboratory & environmental	Purchase of laboratory equipment & consumables	30,049.00	Sole provider
Bidvest Steiner hygiene	Appointment of service provider to manage the hygiene equipment in the restrooms	122,900.03	Impractical
Business Connexion Ltd	Annual license fee	969,433.20	Impractical
Business success solutions (Pty) Ltd	Registration fee for a legal services official to attend an environmental law and compliance workshop	6,999.00	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for Ms T Mokoena and Ms P Baumgart to attend the public sector GRAP seminar	6,608.70	Impractical

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Figures in Rand			2020	2019
36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)				
Chartered institute of government finance, audit & risk officers	Registration fee for the CFO to attend the preparation of AFS course	R	3,304.35	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for the CFO to attend the CIGFARO annual conference	R	6,977.39	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for 5 finance official to attend the CIGFARO annual conference	R	33,846.95	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for 3 councilors to attend the CIGFARO annual conference	R	20,932.17	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for a finance official to attend the budgeting in mSCOA workshop hosted by CIGFARO	R	2,000.00	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for an IT. official to attend the 11th Audit Risk Indaba 2020	R	4,673.04	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for the CFO to attend the 11th Audit Risk Indaba 2020	R	4,673.04	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for an OPM official to attend the 11th Audit Risk Indaba 2020	R	4,673.04	Impractical
Chartered institute of government finance, audit & risk officers	Registration fee for an Internal Audit official to attend the 11th Audit Risk Indaba 2020	R	4,673.04	Impractical
Chartered institute of government finance, Audit & risk officers	Registration fee for an internal audit official to attend the CIGFARO annual conference	R	6,977.39	Impractical
CTP limited t/a lowveld media	Publication of a notice for public comments on the extension of a contract: tender no. 33/2009	R	6,576.00	Impractical
CTP limited t/a lowveld media	Placing of an advert in the holiday guide lowveld and surrounding 2019	R	26,446.50	Impractical
CTP limited t/a lowveld media	Advertisement for a shared chairperson of the risk management and fraud prevention committee	R	4,960.09	Impractical
CTP limited t/a lowveld media	Publishing of a public notice: EDM integrated development plan budget and PMS	R	6,348.80	Impractical
CTP limited t/a lowveld media	Public notice: extension and amendment of contract 06/2016-17	R	6,971.20	Impractical
CTP limited t/a lowveld media	Publication of a notice to appoint an administrator for the Thaba Chweu local economic development agency (Thaleda)	R	5,504.35	Impractical
CTP limited t/a lowveld media	Advertising of the mayoral bursary 2020 for tertiary students	R	13,000.00	Impractical

Ehlanzeni District Municipality

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Notes to the Annual Financial Statements

Figures in Rand		2020	2019
36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)			
CTP limited t/a lowveld media	Publishing of a notice in the lowvelder newspaper on the draft spatial development framework for public comments	R 7,807.74	Impractical
CTP limited t/a lowveld media	Publishing of a notice in the Mpumalanga news newspaper on the draft spatial development framework for public comments	R 6,082.09	Impractical
CTP limited t/a lowveld media	Publishing of a public notice on the draft IDP & the draft budget for the 2020/21 financial year	R 6,971.20	Impractical
CTP limited t/a lowveld media	Publishing of an erratum to the public notice on the draft IDP & the draft budget for the 2020/21 financial year	R 4,118.97	Impractical
Disaster management institute of southern Africa	Registration fee for 2 councilors to attend the annual DMISA conference	R 17,600.00	Impractical
Disaster management institute of southern Africa	Registration fee for 3 officials to attend the annual DMISA conference	R 26,400.00	Impractical
Ditsibi publishers	Purchase of advertising space in the scenic Mpumalanga 2019/20 edition	R 10,500.00	Impractical
Dotcom Africa	Full page publication profiling the EDM mayor	R 39,950.00	Impractical
EarlyWorx 282 (Pty) Ltd	Maintenance of the franking machine & the annual south African post office renewal fee	R 3,421.96	Impractical
Ee publishers (Pty) Ltd	Registration fee for a GIS official to attend the geotech conference	R 5,380.00	Impractical
Geo-information society of south Africa	Professional body annual membership fees for 8 GIS officials	R 5,225.00	Impractical
Happy eagles trading 14 cc	Emergency procurement of water purification powder cartons in response to drought challenges within the city of Mbombela L.M.	R 190,072.00	Emergency
Health professions council of south Africa	CPD accreditation fees	R 1,441.74	Impractical
HGF flame technologies (Pty) Ltd	Purchase of 90 packs of methanol fueled stoves, each with a 24 pack of methanol fuel for the emissions reduction event hosted in Bushbuckridge L.M.	R 48,420.00	Impractical
High tact trading and projects t/aba international	Registration fee for a planning official to attend urban and cities planning	R 10,999.00	Impractical
Impala plumbing & electrical	Various plumbing repairs within the EDM premises	R 30,886.13	Impractical
Institute of municipal people practitioners of SA	Registration fee for corporate services official to attend the IMPSA international conference	R 5,350.00	Impractical

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Figures in Rand		2020	2019	
36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)				
Intelligence transfer center cc	Registration fee for a records official to attend POPIA and PAIA interpretation workshop	R	6,999.00	Impractical
Kruger cultural village	Catering services for the guest house support program close out event & certificate handover	R	6,900.00	Impractical
Kruger lowveld chamber of business & tourism	Exhibition stand at the hospitality trade show for the local economic development stakeholders	R	1,000.00	Impractical
Kruger lowveld chamber of business & tourism	Transfer of funds in support of the regional tourism organisation to facilitate it's marketing publications	R	50,000.00	Impractical
Kruger lowveld chamber of business & tourism	EDM's co-funding contribution for the purchase of exhibition floor space at the beeld show	R	14,136.00	Impractical
Lavish media (Pty) Ltd	Publishing of an advertorial in a local newspaper	R	52,028.30	Impractical
Lowveld country club (LVCC)	Fees for the facilitation of the Ehlanzeni district sports tourism day 2019	R	150,000.00	Impractical
Managed integrity evaluation	Perform qualifications' verification	R	1,685.00	Impractical
Managed integrity evaluation	Verification of qualifications	R	1,693.89	Impractical
Mobile telephone networks (Pty) Ltd - MTN	Data packages for councilors	R	3,161.74	Impractical
Mpumalanga NCRF hub NPC	Radio slot to community radio station to promote the women's day celebration	R	34,500.00	Impractical
Nelson Mandela metropolitan university	Registration fee for municipal health official to attend peace officers' training	R	4,998.00	Impractical
Nikiwe Jannepher Matsebula	Sign language interpretation services for the 1st quarter Ehlanzeni social cluster meeting	R	2,500.00	Impractical
Nikiwe Jannepher Matsebula	Hiring of a sign language interpreter for the open business day for people with disabilities	R	2,500.00	Impractical
Nikiwe Jannepher Matsebula	Sign language interpretation services & for the Ehlanzeni disability forum's AGM	R	2,500.00	Impractical
Nikiwe Jannepher Matsebula	Sign language interpretation services for the 2nd quarter social cluster meeting	R	2,500.00	Impractical
Nkomazi FM radio	Radio slot at Nkomazi community radio station for Mandela celebration	R	2,250.00	Impractical
Payday software systems (Pty) Ltd	Registration fee for 4 finance officials to attend a training seminar	R	19,123.48	Impractical
Payday software systems (Pty) Ltd	Registration fees for payroll officials to attend 2020 biannual seminar &workshop	R	20,166.96	Impractical

Ehlanzeni District Municipality

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36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)				
Payday software systems (Pty) Ltd	Purchase of a digital leave system, inclusive of training & license fees	R	65,942.00	Sole provider
Payday software systems Pty Ltd	Registration fee for a payroll officer to attend the payday system administration workshop	R	4,865.00	Impractical
Payday software systems (Pty) Ltd	Annual license fee	R	143,894.00	Impractical
Pronto computer solutions	Repairs to a printer	R	1,435.00	Impractical
Protel business systems (Pty) Ltd	Transfer of the Protel telephone system from one office to another	R	1,560.00	Impractical
Rosina Florence Mahlangu	Hiring of a sign language interpreter for the open business day for people with disabilities	R	2,500.00	Impractical
Rosina Florence Mahlangu	Sign language interpretation services & for the Ehlanzeni disability forum's AGM	R	2,500.00	Impractical
Rosina Florence Mahlangu	Sign language interpretation services for the 2nd quarter social cluster meeting	R	2,500.00	Impractical
SABC Limited	Radio advertorial slots in support of the 16 days of activism 2019	R	92,916.00	Impractical
Sita (Pty)Ltd	Registration fee for an it official to attend the gov-tech 2019 conference	R	13,043.48	Impractical
South African council for planners	Professional body membership fees for an official	R	870.00	Impractical
South African geomatics council	Annual professional body membership fees for 2 GIS officials	R	2,530.43	Impractical
South African institute of professional accountants (SAIPA)	Annual professional body membership fee for a finance official – senior manager expenditure	R	5,389.08	Impractical
South African institute of professional accountants (SAIPA)	Annual professional body membership fee for a finance official – senior manager expenditure	R	5,389.08	Impractical
South African municipal sports & recreation association	Affiliation & registration fees for SAMSRA national games 2019	R	6,000.00	Impractical
South African municipal sports & recreation association	Annual affiliation fee to the sporting body	R	4,000.00	Impractical
South African national council for the blind	Registration fee for 2 officials to attend a conference	R	1,434.78	Impractical
State information technology agency (Pty) Ltd	Registration fee for an it official to attend the gov-tech 2019 conference	R	11,478.26	Impractical
State information technology agency (Pty)Ltd	Registration fee for an internal audit to attend the gov-tech 2019 conference	R	11,478.26	Impractical
Swaziland international trade fair	Hiring of exhibition floor at the Swaziland international trade fair	R	55,878.26	Impractical
Synergy business events (Pty) Ltd	Hiring of exhibition floor space for the 2020 SA. tourism indaba to be hosted in Durban	R	86,700.10	Sole provider

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36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)			
The institute of internal auditors south Africa	Registration fee for internal audit official to attend a conference	R 10,500.00	Impractical
The institute of internal auditors south Africa	Annual membership renewal for the senior internal auditor	R 2,450.00	Impractical
The institute of internal auditors south Africa	Annual membership renewal for the chief audit executive	R 2,450.00	Impractical
The institute of internal auditors-south Africa	RPL assessment fees for 2 internal audit staff members	R 7,840.86	Impractical
The institute of internal auditors-south Africa	Annual membership renewal fees for the internal audit staff	R 6,600.00	Impractical
The institute of internal auditors-south Africa	RPL assessment fees for an internal audit official	R 3,920.86	Impractical
The institute of internal auditors-south Africa	Registration fee for 2 internal audit officials to attend trainee RPL assessments	R 7,841.74	Impractical
The institute of internal auditors-south Africa	Annual professional body membership fees	R 2,450.00	Impractical
The institute of risk management	Professional body annual membership fee – risk officer	R 2,561.30	Impractical
The institute of risk management	Professional body annual membership fee – risk intern	R 1,380.00	Impractical
The institute of risk management south Africa	Registration for a risk official to attend the IRMSA conference	R 9,150.00	Impractical
The institute of risk management south Africa	Registration fee for a risk official to attend the risk & strategy integrating workshop	R 4,250.00	Impractical
The institute of risk management south Africa	Annual membership renewal fees for a risk management official	R 1,902.61	Impractical
The south African institute of environmental health	Professional body annual membership renewal fees for 19 health officials	R 4,180.00	Impractical
University of Pretoria	Registration fees for a municipal health official to attend a program in environmental management	R 16,086.96	Impractical
University of Pretoria	Registration fees for a GIS official to attend a program in environmental management	R 16,086.96	Impractical
University of south Africa	Registration fee for an official to attend a program in developing & applying interpersonal skills	R 5,790.00	Impractical
Van Wettens breakdown service (Pty) Ltd	Towing of an accident damaged council vehicle	R 2,744.00	Emergency
Van Wettens breakdown service Pty Ltd	Towing of council vehicle that was involved in an accident within Mbombela	R 4,000.00	Emergency
Vodacom	Data packages for councilors	R 35,811.30	Impractical
Wolters Kluwer t/a team mate	Renewal of the teammate license from for four users within internal audit	R 12,216.14	Impractical
Total normal deviations		R 2,847,163.94	

SCM deviations - covid-19 procurements

Covid-19 fixed amount procurements			
Supplier	Description of goods/works/servi	Amount Ex. VAT	Deviation reasons

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Figures in Rand		2020	2019
36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)			
Aqualytic (Pty) Ltd	Emergency supply, delivery, installation, and maintenance of laboratory equipment and supplies	R 805,179.46	Emergency
Bidvest Steiner	Supply, delivery, maintenance and servicing of bins and automated hand free foam/soap and Sanitizer's	R 372,435.36	Emergency
Bushbuckridge community radio	Radio slots for the promotion of covid-19 health awareness	R 25,000.00	Impractical
D nonyane development cc	Emergency supply and delivery of disaster relief material and supplies	R 464,508.00	Emergency
Dyles consulting (Pty) Ltd	Emergency turnkey supply, installation, commissioning and maintenance of a thermal camera fever screening and monitoring system at the municipality	R 258,238.00	Emergency
Gat mbokota investments	Supply and delivery of 80 pairs of rubber gloves and 20l jojo tanks to small scale farmers	R 55,074.00	Emergency
Katz business enterprise	Supply, packaging and delivery of alcohol-based Sanitizers, PPE's, and packaged food parcels	R 538,946.00	Emergency
Khula zikode general trading	Emergency refurbishment of 5 various diesel and electric boreholes in Nkomazi local municipality in response to the covid-19 pandemic.	R 1,246,060.55	Emergency
Leano n1 construction	Supply and delivery of 600 packaged food parcels	R 598,248.95	Emergency
Lihuzu projects	Provide professional services for design and construct water supply augmentation system for steenbok and kahhoyi villages - Nkomazi local municipality	R 1,044,947.50	Emergency
Little Amani general trading	Supply and delivery of alcohol based Sanitizers and PPE's	R 88,031.50	Emergency
Little Amani general trading	Supply & delivery of alcohol based Sanitizer's	R 183,580.00	Emergency
Machawana trading enterprise	Emergency siting, drilling and equipping of two new boreholes in Bushbuckridge local municipality at hluvukani in response to the covid-a9 pandemic	R 818,685.00	Emergency
Machawana trading enterprise jv hatshana	The appointment of a service provider for the emergency refurbishment of two boreholes in Bushbuckridge local municipality: ward 15 (Tsakani and Brooklyn) in response to the covid-19 pandemic	R 474,045.00	Emergency

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36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)

Mj mthombeni construction	Emergency siting, drilling and equipping of two new boreholes in Bushbuckridge local municipality at hluvukani in response to the covid-a9 pandemic	R	316,790.25	Emergency
Mlabamba group	Supply and delivery of Sanitizers, disinfectants and PPE's	R	177,169.80	Impractical
Nkomazi FM radio	Radio slots for the promotion of covid-19 health awareness	R	75,000.00	Impractical
Ptp integrated (Pty) Ltd	Appointment of a service provider for the implementation of a document sharing and collaboration portal for Ehlanzeni district municipality for a period of three years	R	2,973,600.00	Emergency
Simply uniforms	Supply and delivery of PPE's for Marshalls	R	83,530.00	Emergency
Straussn trading enterprise	Supply and delivery of Sanitizers and PPE's for Thaba Chweu	R	125,095.00	Impractical
The unrestricted	Supply and delivery of conti suits, reflector vests and Safety boots as PPE for marshals	R	73,560.87	Emergency
Vmt civils (Pty) Ltd	Appointment of a service provider for emergency drilling of one new boreholes in khumbula - ward 37 in city of Mbombela local municipality	R	494,461.29	Emergency
Vmt civils (Pty) Ltd	Emergency refurbishment of 5 electrical various boreholes in Thaba Chweu local municipality in response to the covid-19 pandemic.	R	957,211.96	Emergency
Voice of hope izwi lethemba npc	Radio slots for the promotion of covid-19 health awareness	R	24,000.00	Impractical
Zinde investments (Pty) Ltd	Supply, distribution & mounting of a2 & a3 COVID 19 awareness posters in Nkomazi & the city of Mbombela municipalities	R	149,900.00	Emergency
Total covid-19 fixed amount		R	12,423,298.49	

SCM deviation - covid-19 fixed rates contracts

Supplier	Description of goods/works/servi	Total fixed rate for various items	Deviation reasons
Little Amani general trading	Emergency supply & delivery of personal protective equipment, related supplies & materials with effect from 05 may 2020 until 30 September 2020	R 8,549.73	Emergency
Acoustic star events	Emergency supply & delivery of personal protective equipment, related supplies & materials with effect from 05 may 2020 until 30 September 2020	R 8,549.73	Emergency

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36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)				
Straussn trading enterprise	Emergency supply & delivery of personal protective equipment, related supplies & materials with effect from 05 may 2020 until 30 September 2020	R	8,549.73	Emergency
Phata ray trading	Emergency supply & delivery of personal protective equipment, related supplies & materials with effect from 05 may 2020 until 30 September 2020	R	8,549.73	Emergency
Mafunasi holdings	Emergency supply & delivery of personal protective equipment, related supplies & materials with effect from 5 may 2020 until 30 September 2020	R	8,549.73	Emergency
Thulatsepo general trading (Pty) Ltd	SCM/148/2019-20: provide services for the clearing of illegal dumping sites in Bushbuckridge local municipality with effect from 15 may 2020 until 31 December 2020	R	10,181.61	Emergency
Ndiza solutions (Pty) Ltd	SCM/148/2019-20: provide services for the clearing of illegal dumping sites in Bushbuckridge local municipality with effect from 15 may 2020 until 31 December 2020	R	10,181.61	Emergency
K2020073561 (south Africa) (Pty) Ltd	SCM/148/2019-20: provide services for the clearing of illegal dumping sites in Bushbuckridge local municipality with effect form 20 may 2020 until 31 December 2020	R	10,181.61	Emergency
Smb development planet	SCM/148/2019-20: provide services for the clearing of illegal dumping sites in Bushbuckridge local municipality with effect form 15 may 2020 until 31 December 2020	R	10,181.61	Emergency
Malwane business enterprise	SCM/148/2019-20: provide services for the clearing of illegal dumping sites in Bushbuckridge local municipality with effect form 15 may 2020 until 31 December 2020	R	10,181.61	Emergency
Thulatsepo general trading (Pty) Ltd	SCM/147/2019-20: provide services for the clearing of illegal dumping sites in Nkomazi local municipality with effect form 15 may 2020 until 31 December 2020	R	9,580.19	Emergency

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36. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)

Ndiza solutions (Pty) Ltd	SCM/147/2019-20: provide services for the clearing of illegal dumping sites in Nkomazi local municipality with effect from 15 may 2020 until 31 December 2020	R	9,580.19	Emergency
K2020073561 (south Africa) (Pty) Ltd	SCM/147/2019-20: provide services for the clearing of illegal dumping sites in Nkomazi local municipality with effect from 20 may 2020 until 31 December 2020	R	9,580.19	Emergency
Smb development planet	SCM/147/2019-20: provide services for the clearing of illegal dumping sites in Nkomazi local municipality with effect from 15 may 2020 until 31 December 2020	R	9,580.19	Emergency
Thulatsepo general trading (Pty) Ltd	SCM/146/2019-20: provide services for the clearing of illegal dumping sites in the city of Mbombela with effect from 15 may 2020 until 31 December 2020	R	10,996.75	Emergency
Ndiza solutions (Pty) Ltd	SCM/146/2019-20: provide services for the clearing of illegal dumping sites in the city of Mbombela with effect from 15 may 2020 until 31 December 2020	R	10,996.75	Emergency
Malwane business enterprise	SCM/146/2019-20: provide services for the clearing of illegal dumping sites in the city of Mbombela with effect from 15 may 2020 until 31 December 2020	R	19,756.94	Emergency
Sadla investment (Pty) Ltd	SCM/146/2019-20: provide services for the clearing of illegal dumping sites in the city of Mbombela with effect from 15 may 2020 until 31 December 2020	R	19,756.94	Emergency

37. Budget differences

Material differences between budget and actual amounts

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Variances in excess of 10% is considered significant and therefore explanations are provided below:

37.1 Operational income

Municipal health inspection services could not be performed as planned as many businesses and other public facilities were not operational due to the COVID-19 lockdown regulations.

7.2 Rental of facilities and equipment

Less rental revenue was realised due to the closure of the Disaster Management Centre conference facility from 27 March 2020 until 30 June 2020 in compliance with the COVID-19 Regulations and Protocols.

37.3 Interest Received

Changes in expenditure and payment management system, and cash and investment management strategy implemented in February 2020 resulted in more cash being held in call accounts and short-term fixed deposits.

37.4 Fines

Municipal health inspection services could not be performed as planned as many businesses and other facilities were not operational due to the COVID-19 lockdown regulations.

37.5 Donation in kind

COVID-19 personal protection equipment and supplies donated by other organs of state recognized as revenue in line with GRAP 23.

37.6 Audit Fees

No interim audits were conducted during the year due to the COVID-19 lockdown regulations.

37.7 Provision for bad debts

Additional provisions for debt impairment had to be made as a result of the approval by Council for irrecoverable debts written off at year-end.

37.8 Finance Costs

The provision for post-employment benefits valuations interest and services costs transactions were not budgeted for and had to be accrued in line with GRAP 25.

37.9 Repairs and Maintenance

The major repairs and maintenance of the municipal buildings project has not been completed due to the COVID-19 lockdown regulations and the outstanding work will be completed in the next financial year.

37.10 Operational expenses

Some of the planned operational programmes and projects as per the service delivery and budget implementation plan could not be implemented due to the COVID-19 lockdown regulations and also savings have been realised due to the implementation of cost containment policy approved by Council in July 2019.

37.11 Operating deficit

The operating deficit was mainly realised due to the following factors;

- (a) The unforeseen and unavoidable approval during the 4th quarter of the year of funding of programmes and projects on the COVID-19 intervention plan to curb the spread of the virus from accumulated surplus as well as the effect of the COVID-19 lockdown regulations on the revenue generation activities; and
- (b) The increase in grants and subsidies expenditure as a result of the completion of capital project during the year and transfer of related assets to the local municipalities.

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37.12 Proceed from sale of assets and loss on disposal of assets

Insurance reimbursements for damaged and stolen assets, and disposal of assets below the carrying values as a result of the insurance reimbursements based on the replacement value amount.

37.13 Loss on fair value adjustment

Unanticipated decrease in equity price per unit held with SANLAM negatively impacted the market or carrying of the SANLAM investment portfolio.

37.14 Actuarial gain and Provisions

Unanticipated high adjustment in the value of the provision for post-employment benefits resulted in actuarial gain in accordance with GRAP 25.

37.15 Inventory

Completion of many capital projects during the year which were work in progress implemented since 2017/18 financial year and the related assets donated to the local municipalities.

37.16 Cash and Cash Equivalent, and Investments

The movement in cash and cash equivalent, and investment is as a result of;

- (a) Changes in expenditure and payment management system, and cash and investment management strategy implemented during the year resulted in more cash being held in call accounts and short-term fixed deposits.
- (b) The non-current equity investment with SANLAM approved by Council during the year to be redeemed and the actual redemption will happen in the next financial year resulting in disclosure reclassification of the investments to current assets.

37.17 Receivables from exchange transactions

Accrual of monies owed by the Department of Water and Sanitation (Principal) to the municipality (Agent) as a result of the implementing agency agreement in accordance with GRAP 109.

37.18 VAT receivable

The accrual of VAT refunds not anticipated during the finalisation of the budget.

37.19 Property, Plant and Equipment, and intangible assets

Projected accumulated depreciation or amortization not realised as a result of asset completed during the year and review of useful lives of fixed assets, and less spending than projected on the budgeted capital projects as well as reclassification of capital expenditure transactions and donation of completed related assets to local municipalities.

37.20 Non-current Borrowings

Reclassification of the remaining balance on the long-term borrowings between non-current and current liabilities at year-end to in line with the loan amortisation schedule.

37.21 Finance lease obligation

The classification of the rental agreement of copiers as a finance lease in accordance with GRAP 13 and the apportionment of the obligation between current and non-current obligation.

37.22 Payables from exchange transactions

Accrual of a liability relating to the travelling allowance payments dispute resolved during the year relating to the incorrect implementation of three previous wage collective agreements, and unanticipated increase in amounts payable to service providers appointed to implement projects relating to the implementing agency agreement.

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37.23 Accumulated Surplus

Accrual of a liability relating to the travelling allowance payments dispute resolved during the year relating to the incorrect implementation of three previous wage collective agreements. The increase in grants and subsidies expenditure as a result of the completion of capital project during the year and transfer of related assets to the local municipalities.

37.24 Implementing Agency Receipts and Payments

Accounting of receipts and payments transactions between principals (Department of Water and Sanitation and Nkomazi Local Municipality) and the municipality as an implementing agent in accordance with GRAP 109.

37.25 Other receipts

Unanticipated VAT refunds received from SARS during the financial year and not budgeted for.

38. Prior period adjustments

Prior period adjustments through surplus includes the following:

Backpay for travel allowances to employees and section 56 managers of R 17,622,693 paid through surplus.

Performance bonus payments relating to prior financial year of R 710,656.

Incorrect allocations of insurance premiums deductions were corrected during the prior year to the value of R 240,962.

Adjustment of prior year debt impairment provision due to change in accounting policy of R 230,788.

Other minor expenditure and debtors recognised directly through surplus of R 42,713.

Momentum investment unaccounted for in previous years recognised of R 972,154.

Statement of financial position

Investments	-	972 154
Receivables from exchange transactions	-	(230 788)
VAT receivable	-	(15 525)
Opening Accumulated Surplus or Deficit	-	11 850 806
Payables from exchange transactions	-	(18 558 782)

Statement of Financial Performance

Employee related cost	-	5 510 385
Operational income	-	240 962
Provision for bad debts	-	230 788

39. Accounting by principals and agents

39.1 Department of Roads and Transport

The municipality acts as an agent for the National Department of Roads and Transport during the implementation of the Rural Road Asset Management System grant project. The municipality receives a 5% agency fee for its services. The agency fees received and included in the total revenue transferred for the 2019/2020 financial year amounted to R 108,304.

Revenue transferred:	R 2,491,000
Expenditure incurred:	R 2,491,000

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39. Accounting by principals and agents (continued)

Refer to note 14.

39.2 Department of Water and Sanitation

The municipality acts as an agent for the Department of Water and Sanitation during the implementation of the Regional Bulk Infrastructure Grant (RBIG).

Reconciliation of agency transactions

Receipts and receivables

Receivables - 30 June 2019	R 11,244,342
Total billed to principal	R 143,716,125
Total received from principal	-R 125,150,324
Retentions	-R 9,440,860
Receivables (refer to note 4)	<u>R 20,369,283</u>

Payments and payables

Payables - 30 June 2019	R 8,768,149
Total expenditure incurred	R 122,565,162
Total paid to suppliers and retention	-R 118,187,536
Payables (refer to note 10)	<u>R 13,145,775</u>

Appendix A

Schedule of external loans as at 30 June 2020

Balance at 30 June 2019	Received during the period	Redeemed / written off during the period	Balance at 30 June 2020	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Rand	Rand	Rand	Rand		
Development Bank of Southern Africa					
130 354 687	-	7 014 038	123 340 649	185 357 483	-
130 354 687	-	7 014 038	123 340 649	185 357 483	-
Total external loans					
130 354 687	-	7 014 038	123 340 649	185 357 483	-
130 354 687	-	7 014 038	123 340 649	185 357 483	-

Appendix B

Analysis of property, plant and equipment as at 30 June 2020

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Prior period adjustments Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Land and buildings												
Land	8 103 054	-	-	-	8 103 054	-	-	-	-	-	-	8 103 054
Buildings	234 900 729	22 999	-	-	234 923 728	(49 870 539)	-	-	-	(5 564 851)	(55 435 390)	179 488 338
	243 003 783	22 999	-	-	243 026 782	(49 870 539)	-	-	-	(5 564 851)	(55 435 390)	187 591 392
Other assets												
Plant & equipment	2 952 603	20 800	(4 647)	(2 234 563)	734 193	(2 165 274)	2 821	1 836 727	-	(79 722)	(405 448)	328 745
Furniture & Fittings	9 802 190	363 335	(13 795)	2 205 188	12 356 918	(7 641 631)	11 747	(1 822 529)	-	(632 479)	(10 084 892)	2 272 026
Computer equipment	28 689 680	5 337 542	(1 586 068)	29 375	32 470 529	(22 868 826)	1 434 106	(14 198)	-	(1 922 244)	(23 371 162)	9 099 367
Motor vehicles	7 166 053	-	(344 028)	-	6 822 025	(4 473 698)	142 883	-	-	(564 589)	(4 895 404)	1 926 621
	48 610 526	5 721 677	(1 948 538)	-	52 383 665	(37 149 429)	1 591 557	-	-	(3 199 034)	(38 756 906)	13 626 759
Total property plant and equipment	291 614 309	5 744 676	(1 948 538)	-	295 410 447	(87 019 968)	1 591 557	-	-	(8 763 885)	(94 192 296)	201 218 151
Intangible assets												
Computer software	15 071 900	709 844	(117 348)	-	15 664 396	(11 182 321)	90 285	-	-	(887 790)	(11 979 826)	3 684 570
	15 071 900	709 844	(117 348)	-	15 664 396	(11 182 321)	90 285	-	-	(887 790)	(11 979 826)	3 684 570

Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2020

Cost/Revaluation Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Prior period adjustments Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Municipality												
Chief Whip	148 993	-	-	-	148 993	(119 734)	-	-	-	(6 842)	(126 576)	22 417
Corporate Services	253 825 033	1 709 684	(152 680)	(437 716)	254 944 321	(58 327 880)	98 235	518 594	-	(6 365 252)	(64 076 303)	190 868 018
Disaster management	25 112 315	221 769	-	104 186	25 438 270	(21 773 010)	-	(46 714)	-	(729 388)	(22 549 112)	2 889 158
Executive Mayor	2 708 878	23 075	-	(86 425)	2 645 528	(1 563 604)	-	54 836	-	(263 639)	(1 772 407)	873 121
Finance and SCM	13 869 563	3 017 281	(1 668 269)	703 265	15 921 840	(9 529 892)	1 512 207	(755 462)	-	(1 104 787)	(9 877 934)	6 043 906
Internal Audit	175 865	21 395	-	1 219	198 479	(137 113)	-	(1 022)	-	(8 697)	(146 832)	51 647
LED and Tourism	1 431 127	10 579	-	(16 762)	1 424 944	(866 223)	-	14 049	-	(146 185)	(998 359)	426 585
Municipal Health	3 156 430	706 051	(191 348)	(204 963)	3 466 170	(1 986 375)	44 648	146 952	-	(308 117)	(2 102 892)	1 363 278
Municipal Manager	2 419 712	372 833	(53 589)	62 370	2 801 326	(1 697 414)	26 751	(29 079)	-	(223 244)	(1 922 986)	878 340
Rural Development	184 147	-	-	(2 557)	181 590	(142 215)	-	2 060	-	(9 266)	(149 421)	32 169
Social and Transversal Issues	681 692	109 333	-	(19 373)	771 652	(411 491)	-	22 307	-	(73 849)	(463 033)	308 619
Speaker	1 710 259	35 804	-	(52 798)	1 693 265	(759 466)	-	33 258	-	(282 020)	(1 008 228)	685 037
Technical Services	1 262 196	226 716	-	(50 446)	1 438 466	(887 873)	-	40 221	-	(130 388)	(978 040)	460 426
	306 686 210	6 454 520	(2 065 886)	-	311 074 844	(98 202 290)	1 681 841	-	-	(9 651 674)	(106 172 123)	204 902 721

Appendix D

Segmental Statement of Financial Performance for the year ended 30 June 2020

Prior Year			Current Year		
Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand	Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality					
-	5 697 885	(5 697 885)	-	5 803 975	(5 803 975)
-	3 459 890	(3 459 890)	-	2 801 443	(2 801 443)
-	20 736 496	(20 736 496)	-	20 057 704	(20 057 704)
-	9 008 683	(9 008 683)	-	9 252 180	(9 252 180)
-	18 438 638	(18 438 638)	-	19 253 691	(19 253 691)
256 884 264	82 649 081	174 235 183	273 677 464	91 784 554	181 892 910
-	40 933 644	(40 933 644)	-	41 098 915	(41 098 915)
-	6 448 924	(6 448 924)	-	7 822 485	(7 822 485)
-	19 645 851	(19 645 851)	-	22 559 404	(22 559 404)
-	1 260 507	(1 260 507)	-	1 314 915	(1 314 915)
-	3 012 286	(3 012 286)	-	3 127 221	(3 127 221)
-	3 127 840	(3 127 840)	-	3 391 481	(3 391 481)
-	18 285 272	(18 285 272)	-	20 666 834	(20 666 834)
-	18 398 451	(18 398 451)	-	30 029 060	(30 029 060)
256 884 264	251 103 448	5 780 816	273 677 464	278 963 862	(5 286 398)

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2020

	Current year 2020 Act. Bal.	Current year 2020 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand		
Revenue					
Operational income	2 328 209	1 665 000	663 209	39.8	Refer to note 38
Rental of facilities and equipment	291 744	400 000	(108 256)	(27.1)	Refer to note 38
Interest received	10 297 507	7 250 000	3 047 507	42.0	Refer to note 38
Dividends received	153 132	140 000	13 132	9.4	
Government grants & subsidies	260 456 872	260 238 000	218 872	0.1	
Fines and penalties	150 000	-	150 000	-	Refer to note 38
	273 677 464	269 693 000	3 984 464	1.5	
Expenses					
Employee related cost	(148 147 404)	(143 190 821)	(4 956 583)	3.5	
Remuneration of councillors	(16 421 849)	(17 002 467)	580 618	(3.4)	
Audit fees	(2 742 809)	(3 300 000)	557 191	(16.9)	Refer to note 38
Depreciation and amortisation	(9 651 674)	(9 651 677)	3	-	
Provision for bad debts	(701 473)	-	(701 473)	-	Refer to note 38
Finance costs	(17 655 504)	(14 573 845)	(3 081 659)	21.1	Refer to note 38
Repairs and maintenance	(4 165 852)	(5 015 027)	849 175	(16.9)	Refer to note 38
Contracted services	(1 140 523)	(1 140 600)	77	-	
Grants and subsidies paid	(29 691 623)	(26 471 292)	(3 220 331)	12.2	
Operational expenses	(55 507 371)	(76 988 659)	21 481 288	(27.9)	Refer to note 38
	(285 826 082)	(297 334 388)	11 508 306	(3.9)	
Other revenue and costs					
Loss on disposal of assets	(118 830)	-	(118 830)	-	Refer to note 38
Gain on fair value adjustments	(1 026 950)	-	(1 026 950)	-	Refer to note 38
Actuarial gain	8 008 000	-	8 008 000	-	Refer to note 38
	6 862 220	-	6 862 220	-	
Net surplus/ (deficit) for the year	(5 286 398)	(27 641 388)	22 354 990	(80.9)	

Appendix E(2)

Budget Analysis of Capital Expenditure as at 30 June 2020

	Additions	Revised Budget	Variance	Variance	Explanation of significant variances from budget
	Rand	Rand	Rand	%	
Municipality					
Chief Whip	-	-	-	-	
Corporate Services	1 709 684	1 710 000	316	-	
Disaster Management	221 769	230 000	8 231	4	
Executive Mayor	23 075	25 000	1 925	8	
Finance & SCM	3 017 281	4 630 073	1 612 792	35	Refer to note 38
Internal Audit	21 395	22 000	605	3	
LED & Tourism	10 579	11 000	421	4	
Municipal Health	706 051	750 000	43 949	6	
Municipal Manager	372 833	400 000	27 167	7	
Planning Department	-	-	-	-	
Rural Development	-	-	-	-	
Social & Transversal Issues	109 333	120 000	10 667	9	
Speaker	35 804	36 000	196	1	
Technical Services	226 716	250 000	23 284	9	
Mayoral Committee	-	-	-	-	
	-	-	-	-	
	6 454 520	8 184 073	1 729 553	21	

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	
Equitable Share	105 552 000	84 441 000	63 331 000	-	63 331 000	63 331 000	63 331 000	63 331 000	Yes
Finance Management Grant	1 250 000	-	-	-	150 000	150 000	150 000	800 000	Yes
National Department of Roads	1 744 000	-	747 000	-	-	301 418	823 609	1 365 973	Yes
Sector Education and Training Authority	73 230	36 971	55 579	53 092	54 718	54 718	54 718	54 718	Yes
Expanded Public Works Program Incentive	794 000	1 428 000	951 000	-	793 250	793 250	793 250	793 250	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	-	-	-	-	-	-	-	-	Yes
	109 413 230	85 905 971	65 084 579	53 092	64 328 968	64 630 386	65 152 577	66 344 941	